

Reinventing Rolls-Royce: A conversation with CEO Tufan Erginbilgiç

Since Tufan Erginbilgiç took the helm of the iconic brand, its share price has surged. Profits have more than doubled. How he did it is a case study in the art of corporate transformation.

Shortly after being appointed CEO of Rolls-Royce in January 2023, Tufan Erginbilgiç told the company's 42,000 employees that they were standing atop a "burning platform." His aims? To quench the flames by reversing sliding profit margins and lay the groundwork for a new century of growth at the 120-year-old manufacturer. Under any circumstances, this would have been a challenge. At a company still struggling to emerge from the COVID-19-era aviation downturn, it seemed nearly impossible.

Erginbilgiç, a former longtime executive at BP, took many of the steps that other leaders pursue to reverse circumstances: reorganizing business units, renegotiating contracts, and cutting costs. But he did so with the understanding that even the smartest strategy can't succeed without the culture to support it. In fact, the only way to reverse Rolls-Royce's fortunes was to engineer a wholesale transformation of its culture at the same time.

Erginbilgiç sat down with McKinsey senior partner Michael Birshan in September to break down his approach to corporate transformations. An edited version of the conversation follows.

Michael Birshan: *You've been chief executive of Rolls-Royce for 21 months, and your performance has been impressive, especially with respect to shareholder returns. We'll talk about that—the "how"—in a second. But first, I'd like to hear your views on the "what." What's your vision for Rolls-Royce?*

Tufan Erginbilgiç: When I first took the job, many people, especially investors, said to me, "Rolls-Royce has tried to restructure many times. How is this going to be different?" To me, this isn't about restructuring. There's a big difference between restructuring and

transformation. Transformation, to my mind, is more ambitious. It's taking the company from point A to point B, where getting to point B opens more potential for the company.

So what's our vision? It's for Rolls-Royce to create a high-performing, competitive, resilient, growing business. How do we get there? By understanding that strategic goals aren't just a bunch of numbers.

Michael Birshan: *Many people use the word "transformation," and many don't succeed at it. How do you get an organization to transform successfully, especially when you're enlisting 42,000 colleagues in that effort?*

Tufan Erginbilgic: You'll only transform a company if you can mobilize your people with purpose, focus, and alignment. I have four pillars. First, you need to create a top-notch leadership team to tell people what the vision is and how we're going to get there. Therefore, I start with putting the mirror up.

Michael Birshan: *This was the "burning platform" comment, right?*

Tufan Erginbilgic: Exactly. If you're not careful when you put the mirror up, you may scare them. But the next day, I was walking in King's Cross station and a woman approached me. She said, "Are you Tufan? Your town hall yesterday was so inspiring." It turned out she worked in turbine manufacturing. Why do I tell this story? She found it very inspiring, even though externally it showed up differently. But that's my point: you have to talk about where you're going to take the business and why you think it's possible. And so far, the organization responded to that brilliantly.

So that is number one. Second, you need a very granular strategy; it becomes a tool for alignment and engagement. The third pillar is to have a performance culture, where performance improvement becomes part of your strategy implementation. And then the fourth pillar is to move with intensity, pace, and rigor.

Michael Birshan: *Regarding intensity, pace, and rigor, you obviously have to move fast. But at a place like Rolls-Royce, you can't break things. How do you think about that?*

Tufan Erginbilgic: If you aren't in uncharted territory, you aren't transforming the business. How do you transform a business in your comfort zone? I actually tell my leadership team, "If you feel nervous, it's because you're in uncharted territory." You need to understand that you're in uncharted territory and reflect on how much is too much. All along, I told my leadership team, "I want you to understand the complete picture. You need to know what is coming." You're always in this conversation, right? Because clarity is important.

Michael Birshan: *Let's talk about strategy. You invested a lot of time in it, and you have a unique way of developing it. Tell us more.*

Tufan Erginbilgiç: I always say, “If you aren't making choices, you don't have strategy.” To develop strategy, you want free-flowing, blue-sky conversation. And make sure it's chaotic. I'm a pretty organized guy, but when it comes to strategy development, I like it chaotic. At Rolls-Royce, 500 people were involved. You want key people who, in many cases, know the business better than you do, especially if you're a new CEO. Because you're making choices in the room, by the time you're done with strategy, the whole organization is aligned; all 500 people develop the strategy with you.

Years ago, I read that 66 percent of all the strategies developed don't get delivered. I actually thought that was a small number; I thought it would be even more. Why? Because most strategies don't take into account implementation. When we're developing strategy, I already know my implementation plan. That makes it more doable, and the success rate goes up.

Unless you translate your goals into clear strategic initiatives and cascade them down, you can't make your strategy relevant to people. When you do, on the other hand, you can actually say to them, “You have a role in transforming the company, and I'm going to give you all the resources you need to deliver.” People can take this to their team and say, “Here's our role.” In big organizations, knowing that you matter is very satisfying and engaging. Suddenly, strategy becomes an alignment, engagement, and performance management tool.

Michael Birshan: *And you begin to translate it into an execution edge, right?*

Tufan Erginbilgiç: We have 17 strategic initiatives to implement. What we normally do is have the finance team put a mirror up and say, “OK, don't worry about 12 of them, because they're on track or they're overdelivering. That's great. Now let's talk about the other five because we need to intervene to course correct.” That's the granularity you have in the organization, and it goes so deep that people own it.

Michael Birshan: *So this is relentless. There's nowhere to hide, right?*

Tufan Erginbilgiç: That's correct.

Michael Birshan: *Can this become exhausting or intimidating for parts of the organization? Or is this just the nature of making change?*

Tufan Erginbilgiç: It's relentless. It's intense. But it's also very satisfying. It mobilizes you because you have a role. Right now, it's very clear at Rolls-Royce what we want to do. People's roles are very clear. In my experience, some people excel in that kind of environment. And some people won't like it; they may deselect themselves, which is part of the process and actually strengthens the way we deliver. I'm not a perfectionist. I don't believe that everything we do must be perfect. I say, “Tidy in business gets in the way.” This is about applying intensity and pace where it matters.

Michael Birshan: *How do you assemble the leadership team for this journey?*

Tufan Erginbilgiç: I start with individuals. I don't worry about team development at the outset. I just want the right individuals, I have criteria—people who are good business leaders and good people leaders. Are they willing to learn? Then I can work with them. Next, they need to believe in the extraordinary. This is important because transformations are about the extraordinary. And third, they need to be passionate about the success of the business. They need to be hungry for success.

Once I find these individuals, then the team development process starts. First, you need to build trust. You need to be open, transparent, and fair because people won't like every decision you're making. And you can't surprise them, because surprises shake trust. You want your people to know where they stand. Why? Because good outcomes come from big debates. I like to see differing opinions in executive leadership because big debates not only deliver the best outcomes but also continually align the leadership.

And then I do other things. I'm always very clear with direction, expectations, and priorities. Strategic priorities don't change, but elsewhere you need to dynamically prioritize because life is so uncertain. At every executive leadership team meeting, I go back to priorities and tell the team, "These were the priorities we agreed on." But at my last leadership team meeting, I told them, "We've got a couple of emergencies coming in, so I'm OK to drop these three things from the priority list. We'll still get to them, but they're no longer on the priority list." Doing this continually aligns and brings clarity.

Finally, when I see an elephant in the room, I call it. Frankly, most of the elephants tend to be about leadership, and if the leaders don't call it, nobody will. So let's name it and deal with it.

Michael Birshan: *When you talk about emergencies, it speaks to resilience, which a lot of leaders are worrying about right now. What does resilience mean for you?*

Tufan Erginbilgiç: I look at two levels of resilience. One is cash generation resilience: Are you resilient amid volatility? Or are you falling apart? You can't build trust with stakeholders if they think you're going to fall apart at the first opportunity. The other level of resilience plays into competitiveness and P&L. I actually introduced a new KPI to the aerospace industry: the ratio of total cash cost to gross margin. Guess what that number was for Rolls-Royce in 2019?

Michael Birshan: *One?*

Tufan Erginbilgiç: Close. The answer is 0.9. What does that say to you? If 10 percent of your gross margin is gone, you're in the red territory.

Michael Birshan: *Not resilient, in other words.*

Tufan Erginbilgiç: Right. Our ratio of total cash cost to gross margin is now less than 0.5. And we're going to take that to 0.4. That's a competitive advantage.

Michael Birshan: *Culture is hard to change, and Rolls-Royce, obviously, is a very storied institution that has been around for a long time. When you arrived, what was the culture like?*

Tufan Erginbilgiç: First, what I found at Rolls-Royce was genuinely very high-quality people. That was very important. Remember, this transformation has been about mobilizing the workforce. It's about people. Some teams go offline and do team-building activities. I've never done that. I'm a believer in putting difficult topics in front of the team and allowing them to articulate their views; that's my model for team building.

In terms of culture, some people think, "Oh, I'm going to communicate." And communication is important, but it won't change the culture on its own. My view is you need to be very consistent—consistent expectations, consistent reinforcement. And use every opportunity possible for performance management. You need to continually tell people what good looks like so that there's a learning process. That's what changes culture.

You also need to talk about purpose and behavior. What's the role of purpose, in my mind? The purpose of a company is its positive contribution to the world. That's important for employees. Employees need to feel passionate about why the company exists because that's why they get up in the morning: for a bigger purpose.

Our new purpose and behaviors statement is that—powering, protecting, and connecting people everywhere. I insisted that "people" be in there because there needs to be an emotional connection. Together with strategy, an emotional-level purpose is what guides our actions. Over time, if the environment changes, we can adjust our strategy. But our purpose will stay and continue to be a guide all the way.

I believe that mindset is the most important thing in business—even more than strategy. And behaviors are part of your mindset. Behaviors help you deliver your strategy and achieve your vision. They're another mechanism. We emphasize four behaviors now: put safety first, do the right thing, keep it simple, and make a difference.

The first two are where we already are, and the second two are where we want to be. We struggle to simplify things. On making a difference, I actually tell people, "You're doing that job because you're the best person in the world to do that job. And if you're the best person in the world to do that job, you need to make a difference."

Michael Birshan: *It's why you have to believe in extraordinary.*

Tufan Erginbilgiç: Exactly. It's very rewarding when you start to realize that you can make a difference—more than the others—because you're the best person for that job. That's when transformations can happen. Think about 42,000 people making a difference. Obviously, you need to mobilize them with focus and purpose and alignment. And then let them make the difference.

Michael Birshan: *You're clearly a student of business and leadership. What are some of the practices you use to be effective as a leader?*

Tufan Erginbilgiç: I always talk about four things. One is learning. Many people are obsessed with the next promotion, but frankly, they'd be better off focusing on learning and making themselves of higher value. Increasing your value and effectiveness is good for today, and it will prepare you a lot better for the future. At my previous organization, I actually skipped a big promotion. They called me and said, "Don't go to that horizontal job. We'll give you a big promotion." I could have been a very senior leader. But I actually said, "No, I'm going to do this because that will make me more effective in the future."

Second is to always be learning. People ask, "How do you keep your energy up?" By learning. I'm still curious about things; I'm always digging deeper.

Third is the power of belief. I ask people, "Have you ever achieved anything extraordinary that you didn't believe in?" If you don't believe, it will never happen.

And finally, to make a difference, you need to take some risks. I don't mean safety risks. You need to take personal risks. Confucius said, "Wherever you go, go with your heart." I like that. Some people lead from the front, some from behind. They are equally effective. Except in transformations: you need to lead from the front. People need to see you're putting your neck out there, taking personal risks. Nobody will go to uncharted territory in the absence of that.

Michael Birshan: *What does the future hold? You've talked a bit about energy and small modular reactors [SMRs] and other things.*

Tufan Erginbilgiç: Thinking about our 17 strategic initiatives, we haven't implemented all of them yet. So we need to be an execution machine. Yes, we're talking about SMRs and microreactors: there is a big growth opportunity. But that's the what. On the how, there's still more to do to embed our performance culture.

There's more to do in the sweet spot. What's the sweet spot? It's creating a fully aligned organization where everybody knows their roles and are energized to deliver. We want to create a sustainably distinctive business in terms of safety, operational effectiveness, and customer service, with competitively advantaged products and technologies. We aren't there yet; there's more to do on both the what and the how.

Michael Birshan: *Rolls-Royce has a long history, but history can both be helpful and sometimes restrict you. I'm curious how you harness it and evolve it?*

Tufan Erginbilgiç: Rolls-Royce is a great company with great people, a great history, and an iconic brand. It's great for talent attraction. That's why I'm here, frankly: because I think that turning around a company like Rolls-Royce is really worth the effort. [Q](#)

Tufan Erginbilgiç is the CEO of Rolls-Royce. **Michael Birshan** is a senior partner in McKinsey's London office.

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